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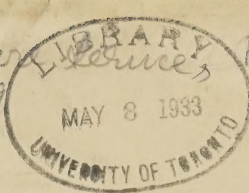






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## REPORT ON SUPERANNUATION.

In accordance with our instructions, we have not failed to inquire into the inconvenience which has arisen to the Public Service, from the number of men in it who, from age and infirmity, are no longer efficient in the performance of their duties. We have called for returns of the ages of all the permanent employes of Government, not only at head quarters, but in the several outside services, and the extent to which the Public Service suffers from this cause may be judged of from the following abstract of these returns, to which, for comparison, we have added a similar abstract of the Civil Service in England, and the proportions in which men of different ages are found in a natural population, taking the latest returns of the Registrar General in England as the basis:—

Ages.	Civil Service, Canada.	Civil Service, England.	Males, England.
20—25	6.94	5.91	14.10
25—30	8.82	10.85	13.48
30—35	12.65	13.88	12.83
35—40	11.27	17.12	12.13
40—45	11.51	16.11	11.38
45—50	16.41	12.05	10.57
50—55	12.82	10.26	9.63
55—60	12.00	8.01	8.55
60—65	7.59	5.81	7.31
	100.01	100.00	99.98
Over 65	8.65	3.51	8.81

As many of the servants of Government will often be required in any country to possess qualifications, which they acquired elsewhere before their entrance into the Public Service, there will evidently always be a considerable excess at the higher ages, beyond what there would be in a natural population; but the very great disproportion in Canada, as compared with what is found in England, clearly points out the necessity for some immediate action; and if it is necessary to overload the service with older men brought in for special reasons, it becomes only the more necessary to enforce stringent rules for limiting such appointments to cases of absolute necessity, and to confine all ordinary appointments to young men.

The excess of men at the higher ages is more conspicuous in some of the branches of the service than in others. Thus whilst in the Departments 61 per cent. of the whole service is below 45 years of age, (almost exactly the same proportion as in England), in the outside staff of the Customs only 30 per cent, and in that of the Marine and Fisheries only 26 per cent., are below that medium age. In the whole service in Canada, the proportion is 51 per cent.

This peculiar feature of our Civil Service, indicates the necessity of providing some method of relieving it from men advanced in years, and at the same time it adds materially to the difficulty of devising any adequate scheme, and to the probable cost of carrying one into effect.

After a careful consideration of the whole question, we are prepared to submit the leading features of a scheme, which we think the most practicable; but the subject is beset with so many difficulties and complications, and so many points are involved, upon which the most opposite opinions have been expressed, that we have thought it necessary to enter into considerable detail as to the principles upon which such a scheme ought in our opinion to be based. We have therefore first submitted the general outlines of the plan which we recommend, with references to the paragraphs in the subsequent part of our report, where we have discussed the several questions which arise; giving the reasons which have influenced our decision, and indicating the possible modifications which the Government may think fit to introduce.

### OUTLINES OF THE SCHEME RECOMMENDED.

- I. It is advisable to establish a system of compulsory superannuation.
- II. Such a scheme would be more likely to be acceptable, if founded upon deductions from salaries. (4-7).
- III. The deductions should be so calculated on the probabilities of life, as to cover one half of the charge, the public bearing the other half. (9-10).
- IV. The deductions should be calculated upon the basis of 65 as the age of retirement, and of interest at 6 per cent. (24, 25, 26).
- V. We have throughout based our calculations upon  $\frac{2}{3}$  of the average salary of the last three years, as the normal rate of retiring allowance, both because that is the usual rate in other countries, and because any scheme which did not provide a decent maintenance, would be to a great extent inoperative; but if Government decide upon any other rate, our results may be increased or diminished on the same proportions. (11, 16).
- VI. The percentage deducted should increase with the amount of salary, on the principle explained in the report. (11-14).



VII. The contributions should not be treated as a fund bearing interest, but they should be paid in as a part of the revenues of Consolidated Fund. (8).

VIII. The allowances should not be based upon length of service alone, but men who have entered after the regulation age should be differently treated from those who retire before the regulation age. (15-21).

IX. No man should be entitled to any superannuation until he had served a certain number of years to be named (ten years is proposed), but if he becomes incapacitated before that time, he should receive a gratuity of one year's salary and have all his contributions returned to him with interest. (24).

X. After ten years service any person becoming incapacitated for useful work may, on proper proof of such incapacity, receive an allowance of not less than one half of the average salary received by him during the last three years, with an increase of one hundredth of such annual salary for every year of service above ten years, but in no case to exceed  $\frac{2}{3}$  of the salary. Such allowance should be granted on the express condition that Government may, at any time thereafter upon the removal of such incapacity, call upon him to re-enter the service at the salary at which he left it; or if he be in any other employment in receipt of a salary equal to his retiring allowance, the Government to be entitled to withdraw or reduce the allowance. (23-24).

XI. As by the Civil Service Act, men may enter up to the age of 25, and as the equitable deduction from such men would not very materially differ from that based on 20 as the age of entrance, and as such men would have served fully 40 years before arriving at the age of superannuation, they should be placed upon the same footing as to deductions and allowances as those who enter at 20. (22).

XII. It is provided in the Civil Service Act, that, for special reasons to be assigned in the Order in Council appointing him, a man may be appointed between the ages of 25 and 40. In all such cases it is evident that the man would be in some of the higher offices, and there would often be no loss if he received the usual  $\frac{2}{3}$  allowance, as is explained in the Report. But the loss would vary very much according to the age and to the salary to which he was appointed, and a scale of reduced allowances or increased deductions should be prepared, in accordance with which the rate to which he would be entitled should be named in the Order in Council appointing him. Such a scale would be prepared when the data, upon which the calculation is to be made, are determined upon. (12, 22).

XIII. The Civil Service Act provides, that whenever any man is appointed after 40, a special report shall be made to Parliament, stating the reasons for the appointment, and such report should state the rate of superannuation allowance to which a man so appointed would be entitled. (22).

XIV. The two preceding paragraphs refer to men hereafter to enter the service, and the same rules may apply to the existing staff, according to the age and salary, at which they entered the service either of the Dominion or of any of the Provinces of which it consists. (27-28).

XV. A definite sum, hereafter to be named, should be made an annual charge upon Consolidated Fund, over and above all deductions, to which extent, including the deductions, Government should have the power of granting retiring allowances, and if any further sum was required it should be placed in the Estimates annually. (29-33) (34-37).

XVI. A report should be made to Parliament annually of all persons placed on the retired list with the allowances granted to them and the reasons for their being so placed on the retired list; the fact of a man being 65, being a sufficient reason without proofs of incapacity. (24).

XVII. A combination of superannuation allowances and life insurance may be very profitably introduced. (38-44).

#### VARIOUS SUPERANNUATION SCHEMES ADOPTED.

1. The uncertainty, which still prevails as to the proper basis of such a measure, is forcibly illustrated by the varying provisions which have been adopted in successive enactments on the subject, both in England and in other countries in Europe. The question of Superannuation Allowances, to be granted under fixed rules, first came into notice in England towards the end of the last century. There had for many years previously been Superannuation Funds in the Excise and Customs, supported partly by a tax on salaries, and partly by fees, fines, a portion of seizures, the sale of old stores and other sources, which would now be considered branches of ordinary revenue. Other departments had also, from time to time, established funds, upon which pensions were at least partially chargeable, and each office had its own rules. The first general Act upon the subject was passed in 1810, which granted very liberal pensions, commencing at one half of the salary after 10 years' service, and increasing up to the whole salary at 65 years of age, and no deductions were made from salaries towards meeting the charge. In 1821 the question came up again, and a new basis was established by Treasury Minute, afterwards embodied in the Act of 1822, by which  $2\frac{1}{2}$  per cent. was deducted from all salaries between £100 and £200, and 5 per cent. from all above £200, together with 10 per cent. upon the excess of the existing salary over the amount which was to be affixed to the office on a contemplated revision of salaries. These deductions were to be invested in Exchequer Bills, and the fund thus created was intended to bear only half of the superannuation charge, the other half being charged on the Exchequer. Moreover, if any man died or retired without superannuation, his contributions were to be returned. Two years afterwards, however, all future deductions from salaries were abolished, and the amount already collected was returned. The question still continued to be agitated, and in 1829 a Treasury Minute established the system, which remained in force until 1856, although it was only sanctioned by Parliament in



1834. The deductions from salaries were  $2\frac{1}{2}$  per cent. on all under £100, and 5 per cent. on all above, and the scale of superannuation was very much reduced, the maximum being  $\frac{3}{4}$ . No account of these deductions was ever kept as of a fund, and before long an agitation was commenced upon the supposition, which proved to be erroneous, that the contributions of the Civil Servants amounted to far more than their superannuations would come to. A Committee of the House of Commons sat in 1856, and took voluminous evidence upon the subject, in which the most contradictory opinions and calculations are advanced by the several witnesses. Finally, a Royal Commission was appointed, in accordance with whose recommendation an Act was passed in 1857, abolishing all deductions from salaries, and slightly modifying the scale of pensions, which now commences at  $\frac{1}{6}$  of the average salary for the last three years after 10 years' service, increasing  $\frac{1}{6}$  for every year's service up to  $\frac{2}{3}$  as a maximum, and with power reserved to increase the amount in certain cases.

2. In France the first attempt at general legislation upon the subject was in 1790, when the right of Civil Servants to retiring allowances was recognized; but there had long previously been Departmental funds for the same purpose, with deductions from salaries and with various rules. In 1806 a great reduction in the amount of the pensions was made. In 1825, all the separate Funds, none of which appear to have been self-sustaining, were amalgamated, and a deduction of 5 per cent. was made from all salaries. From that time, till the existing law was passed in 1853, almost every year witnessed the introduction of a new Superannuation measure, varying very much in their provisions. The present law requires a contribution on the salary of 5 per cent. with the first fruits—i. e., the first month's salary on appointment, and the first month of each increase. The pension is  $\frac{1}{6}$  of the salary on the average of the last six years for every year's service, 30 years being the minimum to entitle a man to any pension; but widows and orphans are also admitted to certain proportions of the pension the husband had, or would have been entitled to. No account of the deductions is kept as of a fund, but it was calculated by Mr. Matthieu that it would require a deduction of 7 per cent., and double first fruits, to bear the contemplated charge. There are elaborate rules under which the pensions may in certain cases be enlarged, and for such employés as had not been under deductions for the whole period of their service.

3. In Belgium, the scale of pensions is very similar to that in France, but whereas the law of 1844 made a deduction of 5 per cent., not to exceed on the whole a certain amount, so as to operate favorably for the higher salaries, the law of 1849 reduced all deductions to 1 per cent.

In Austria, the deductions vary from 5 to 10 per cent.; in Prussia, from 1 to 4 per cent. There is a provision for widows in the former, but not in the latter.

In all these varying schemes there appear to be only four points on which all agree. (1.) That there shall be certain rules under which public servants who are past work shall receive retiring allowances. (2.) That the amount of the allowances after a certain age, shall depend upon length of service. (3.) That where deductions are made, no account is kept of them as of a fund bearing interest. (4.) That, even when a deduction is made from the employé, it is not enough to bear the charge of his superannuation, the State making good any deficiency.

Having given this short resumé of the varying legislation which has taken place on the subject in the leading countries of Europe, we propose to examine each of the points separately, which must be decided before any detailed scheme can be determined upon.

#### SHALL THERE BE DEDUCTIONS FROM SALARIES?

4. We cannot state the argument against deductions better than in the words of Lord Sidmouth in 1821: "It appears to me to be much more rational to assign to the clerks such unincumbered salaries as it may be fit for them to receive, than to adopt a complex and illusory plan of ostensibly giving them certain sums, and at the same time depriving them of a part of those sums for a different purpose." It must be remembered that the system of deductions originated in England confessedly as a measure of economy, and in France as the continuation of the old *Caisses de retraite*, which were really treated as funds, and to which most of the existing staff had been contributing for years. In both these cases there was a reason for the practice. But if a new scale of salaries is to be adopted, as has been done by the late Civil Service Act of Canada, the nominal salary subject to a deduction would be a pure fiction; and if the State is to bear the charges of superannuation, whether the abatements will cover them or not, it certainly would much more nearly represent the real transaction, to call the remuneration of the public servant a certain salary to be paid whilst he works, with the prospect of a reduced allowance hereafter when he is past work.

5. On the other hand it was argued by Sir James Graham, Sir F. Baring and others, that the deductions formed a guarantee for the permanence of the system. Sir F. Baring says: "There is one great advantage for the Civil Servants in the deductions, which is, that they are a shield against the House of Commons, in any momentary feeling of economy, running in and making a great alteration with regard to retiring allowances. \* \* \* \* \* If the retired allowance was a mere advantage given in addition to the salary, the feeling was that the House of Commons might deal with it as it pleased. But if there was a deduction (I do not mean to say that it is strictly logical, but it would have been argued) there would have been, as there is now, a strong feeling that the Civil Servant had paid his own superannuation, and that you were taking from him what he had actually paid."



6. The Royal Commissioners in England report very decidedly in favor of abolishing deductions, assigning this amongst other reasons, that as long as they are made, there is a constant misapprehension as to their effect, and that the case of men, who die or retire without receiving any benefit, is regarded as a great hardship; whereas the whole scheme is founded upon the supposition, that the profit made from those, who pay without ever becoming chargeable on the fund, alone enables the small annual contributions to provide for the large ultimate charge.

7. We are inclined to think that the Civil Servants in Canada would be willing to submit to a deduction from their salaries, for the sake of the security which they would feel that it gave them for a decent provision in old age; but it must be admitted that the view taken of this question by the Commissioners is the most logical, and it would certainly very much simplify the establishment of a superannuation scheme.

#### IS THERE TO BE A FUND?

8. Supposing that deductions are decided upon at such an equitable rate as would provide for the superannuations, are they to be treated as a fund bearing interest? It may be necessary to make some preliminary observations as to the nature of such a fund. It is very clear that the deductions made hereafter from the men now in the service, who have contributed nothing in their earlier years, would go a very small way towards providing for their superannuation, and as you cannot with any fairness tax men hereafter to be appointed to make up the loss there will be from the men now in service, you must treat the two classes separately, and have in fact two funds—the one for existing servants, who must be treated exceptionally, either in the deductions or in the ultimate benefits, or else be a constant though annually diminishing charge on Government as long as any of them live, for the excess of their pensions over their contributions; and one for all men to be hereafter appointed. This latter fund if allowed to accumulate at compound interest, would go on constantly increasing for the first forty years, there being very few charges against it for that period. After that time the pensions would become payable out of it in inconstantly increasing amounts, but the ultimate maximum charge would not be reached for about 70 years, after which date, if the actual facts corresponded with the expectation of life assumed in the calculations, and if the Civil Service remained of the same number as now, the fund would remain stationary. At this time the annual charge for pensions would in round numbers be about four times the annual receipts from deductions, the difference being made up by the interest on the accumulated fund. But as the service will no doubt go on constantly increasing in numbers, the deductions would increase faster than the pensions, and the ultimate expenditure might not perhaps exceed three times the receipts from deductions. It is this latter which alone there could be any object in treating as an accumulating fund. Such a fund might be kept constantly invested in our own or other securities, and the effect upon the annual receipts and expenditure would then be just as if no deductions had been made, and no pensions had been granted; but the nation would have to bear the whole cost of the excess of the pensions granted to men now in the service over the deductions from them, which would be a large amount from the first, gradually increasing for the next twenty years, and then gradually decreasing till about 60 years hence it would die out altogether. It is quite possible to manage a fund in this way, though the policy of it may be doubted; but if the fund were treated as our Trust Funds have been, *i. e.*, not invested, but allowed interest as a book account, the annual cash receipts and payments would not in any way differ from what they would have been, if no account had been kept as of a fund. It would be a mere piece of book-keeping of no practical use, whilst the apparent accumulation of a trust fund in the books, with no charges against it for nearly 40 years, would be sure to lead to endless misapprehension. We are therefore decidedly of opinion that the receipts from deductions, and the payments for superannuation, should appear annually in the accounts under those heads, but that they should be treated as any other receipt and payment of Consolidated Fund. The effect would be, that from the first the payments would be fully three times the receipts, increasing at first till they were probably four times, or even more, and then falling off again till ultimately they would not perhaps exceed three times the receipts. This large excess at first is in consequence of the great numbers of men advanced in life in our present Civil Service, a state of affairs which it is one of the objects of the new Civil Service Act to avoid for the future. It must, however, be remembered that if there is this heavy charge for superannuations from the first, there will be a large corresponding saving in salaries, for there are many cases where an aged official is practically superannuated on his full salary, and another officer is appointed to do his work. In case of the retirement of the former the working staff would not be increased, at least to the extent of the saving effected by his reduced allowance.

#### TO WHAT EXTENT SHALL DEDUCTIONS BE MADE?

9. Assuming that salaries are fixed at a fair rate, such as would be paid if there were no question of superannuation allowances, and that deductions are established as a means of providing these allowances, the question arises whether the civil servants themselves are to bear the whole cost of the measure. They have certainly a strong interest in the establishment of a system which would secure them from the greatest of all misfortunes, that of being left without any adequate provision if they became incapable of useful work, and it would be a quite legitimate arrangement if they formed, under the auspices of Government, a mutual insurance association to protect each



other from this calamity. They have also a further indirect interest in it, inasmuch as promotion would become more rapid and certain, if the elder members could be induced to retire; an advantage, the chance of which most men are willing to purchase at a price beyond its real money value. But Government has also a great interest in the question, a much greater one in fact than its servants have; for most men die in harness, and with them the alternative would generally be, to enjoy a respectable salary for life, or to have a small deduction made from it in their earlier years, and a very large diminution in old age.

10. But the Government would gain largely; even if it bore the whole cost of the pensions, it is questionable whether there would not be a pecuniary gain, so many of our officials are now practically superannuated on their full salaries; but the great advantage, which cannot be estimated in money, is, that the work would be better done. In so far then as the nation at large would profit by the scheme, it seems contrary to admitted principles, that a tax should be imposed on a particular class for the general benefit. Both the Government and the civil servants are in fact interested in the question, and if there are to be deductions at all, we think that it would be a fair distribution of the burden, if a calculation were made of what deductions would cover the whole cost, and that the deductions should be established at half that amount, the other half being borne by the Government.

### THE SCALE OF DEDUCTIONS.

11. Whether the Civil Servants are to pay the whole of the deductions, or only a part, the only way to arrive at an equitable amount is to make a strict calculation from the best data obtainable as for a self-sustaining fund, and in this view of the subject, we have no hesitation in saying that the deductions in France, and those exacted in England under the old law, are not upon an equitable basis. There was a lower rate in England for the small salaries, as a concession to those who were less able to bear it, as to the justice of which there may be doubts; but otherwise the rates were uniform upon all salaries. If the salaries remained of the same amount through life, it would be a very simple calculation to ascertain what percentage of deduction would be sufficient, on the average chances of life, to purchase at the age of retirement an annuity of say  $\frac{2}{3}$  of the salary. But the salaries are not stationary. A man commences contributing upon a low salary, and is superannuated on a high one, so that if he only pays the equitable percentage as on a uniform salary, it would go a very small way towards meeting the charge. If to obviate this, you make the percentage such that on the average it would cover the charge; he would be paying far too much whilst he was at the low salary, and far too little when at the high one. The method of arriving at the percentage, which on an average would cover the charge, would be to assume an average rate of promotion, and calculate upon that. But there necessarily will be in every service several different scales of promotion applicable to different sections of it. There are the men who hardly rise at all, principally in the lower grades, as messengers, &c. The great bulk of the service may rise perhaps at the average rate, but stop rising, we will say, at the maximum of the 2nd class. Others again will rise rapidly from class to class and attain to the highest ranks. If you could tell, when a man enters the service, to which class he would ultimately belong, the percentage should be calculated on the average of each of these classes separately, and would result in very different rates. As this cannot be done, a general average is taken, which operates most unjustly. The men who rise slowly, or not at all, and the men who stop rising at a given point, pay far more than they have any expectation of receiving, and those who rise rapidly and high, pay far less. This is the necessary consequence of the English and French systems of a uniform percentage.

12. The only equitable method of arriving at the percentage, is this—let every man on his first appointment pay such a percentage on his salary, as at the age of retirement would give him an annuity of  $\frac{2}{3}$  of that salary, and at each step in advance let him pay in addition such a percentage on the increase, as would give him an additional annuity of  $\frac{2}{3}$  of that increase. As at each step he is growing older, these percentages will be constantly growing larger. If then we assume an average rate of promotion, commencing from a given age, and put together all these varying percentages upon different portions of his salary, we shall arrive at a total percentage, increasing as the salary and age increases, commencing at about  $1\frac{1}{2}$  per cent, for the lowest salaries, and increasing to about 10 per cent, for the highest, if you calculate at 6 per cent interest, and 65 as the age of retirement. At first sight, until the reason of it is given, this may appear unjust, but it is strictly equitable. The only superannuation scheme which we have seen upon this basis, is one for the Ionian Islands, said to have been prepared under the auspices of Mr. Gladstone. No statement is given of the method by which those rates were arrived at, but we have no doubt it was something similar to that described above, which is the result of the calculations of one of our own body. Such a scale would exactly meet the case of the men who do not rise at all, and of those who rise at the average rate, at whatever period of their career they stop rising. As it is based on an assumed average rate of promotions, it would not exactly meet the cases of men who rise more rapidly or more slowly than the average, but much more nearly so than on the basis of a uniform percentage, and with this notable difference, that the unsuccessful man, who rose slowly, would not, as on the other principle, be paying not only for his own pension, but in aid of that of his more successful colleague; he would pay somewhat less than the probable cost of his superannuation, and the successful man, who could well afford it, would be paying rather more. It would also go a long way towards meeting one of the most troublesome cases in all superannuation



schemes, viz: the men who for some special qualification are brought into the service in middle age. Such men are usually placed in some of the higher offices, and would pay therefore a higher percentage, and if when appointed they were not far from the age at which a man who had worked his way up from the bottom would have attained to that rank, there would be no great loss from them to the fund. Thus at the average rate of promotion under the present Civil Service Act, which may be taken at \$50 annually, a man commencing at \$300 at 20, may expect to rise to \$800 at 30 and to \$1,400 at 42. But if a man were first brought in at \$800 at the age of 24 or at \$1,400 at the age of 32, such a fund calculated at 6 per cent. interest and 65 as the age of retirement would suffer no loss.

13. We have calculated upon the principle above laid down the percentage upon the salaries, which would be required to entitle a man to a pension at 65 of  $\frac{2}{3}$  of his final salary, assuming \$50 per annum increase as the average rate of promotion in the Departments. In practice of course, we must take a round sum, or a simple fraction, as the percentage, and we give below such rates as might approximately be substituted for the exact fraction:—

On salaries under \$	800	$1\frac{1}{2}$	per cent.
"	1,200	2	"
"	1,400	$2\frac{1}{2}$	"
"	1,600	3	"
"	1,800	4	"
"	1,900	5	"
"	2,000	6	"
"	2,100	7	"
"	2,200	8	"
	above 2,200	10	"

14. If therefore, as we have recommended, the employés are only to pay for one half of their retiring allowance, Government, which would be a large gainer otherwise by the establishment of the system, bearing the other half, the deductions would only be one half of those given above, or ranging from  $\frac{3}{4}$  per cent. to 5 per cent.

#### SCALE OF ALLOWANCES.

15. All the superannuation schemes have the scale of retiring allowances dependent on length of service. In spite of such a universal consent to make this the test of the proportion of the salary to be awarded as a pension, we think that, both on mathematical grounds, and on grounds of policy, it is open to serious objections.

16. The object of a system of superannuations, as far as the Government is concerned, is to strengthen its hands in getting rid of servants who have become incapable, by providing such a retiring allowance as may maintain them in decency; and as far as the public servants have contributed themselves toward it, it may be looked upon as a mutual assurance association in case of such a misfortune happening to them. To make such a scheme effective, the provision must make some approach to being an adequate maintenance, or in practice the employé would be allowed to linger on in the service at his full salary. Now the allowances in the lower part of the English scale, and the French one is even less liberal, appear to be quite inadequate to the object which it is sought to attain. It must be remembered that Government Clerks rarely have any opportunity of earning money outside their offices, and it is not desirable that they should enter into private speculations; in the collection of the revenue they are forbidden by express enactment from receiving any other emolument. Public servants should, and they generally do, depend for a living upon their salaries, and for a provision for their families upon life insurance. But one sixth of such a salary as a man would have attained to after 10 years' service, or even one third of his salary after 20 years' service, would do hardly anything towards their maintenance and the premiums of a life insurance. According to the average scale of salaries of the present Civil Service Act, these allowances would be \$133 to a man of 30, and \$433 to a man of 40, with probably a rising family.

17. In a new country like Canada, and indeed in every country of progress, new branches of the public service will, from time to time, be established. They cannot all be organized with young men who have a fair prospect of 40 years working life before them. Many of the higher offices are necessarily filled by men who have had a training, and have attained to a certain position, outside of the Civil Service. In many offices special attainments are required, which cannot be acquired in the ordinary routine of the public offices; and although as a rule promotion should take place within the service itself, great advantages arise from the occasional introduction of new blood into the system. Such men are generally of middle age, with a prospect of not more than 20 years active service, but they are introduced and placed over men who have been in the public employment from their youth, because it is thought for the public benefit that they should be so advanced. Does it not appear unjust that in their old age they should be placed in an inferior position to those, who were considered less efficient servants whilst both were in active work? The discretionary power reserved in the English scheme of increasing the allowance in certain cases is an admission that the scheme itself is imperfect, and would operate unjustly if strictly acted upon, and the remedy is a very dangerous one.



18. There are other theoretical reasons against basing the retiring allowance upon length of service alone. In all services men will to a great extent obtain promotions by mere seniority, and independently of promotion from grade to grade, there is in Canada, as in England, an annual increase in each class for length of service alone. A man therefore who has served 30 or 40 years will in all probability have reached a high salary in consequence of his length of service, and if you then pension him off on a fixed proportion of that salary, you are treating him as well when pensioned as you did when in full work. But if you make the proportion of the salary to be paid as a retiring allowance to depend upon the length of service, you have taken it twice into account. You have given him a large salary because he has served long, and a large share of that large salary for the same reason.

19. There is a natural feeling that more consideration should be shewn to an old servant than to one who has only been connected with you for a short time, and if Government grants the pensions out of its own funds as an act of grace, it may be said, that it may lay down such arbitrary rules as it pleases. Even in that case, however, the salary is, or ought to be, the test of the value to government of a servant's work, and consequently of his claim upon it when he can work no longer. But if the retiring allowance is not a mere gratuity—if the servants themselves contribute to it in whole or in part, there should be nothing arbitrary, but the measure should be founded upon strict principles of justice, carried out by legitimate calculations. In this view of the case length of service, as such, cannot be taken into the account at all. Sentimentally, length of service may be a good ground, but, arithmetically, it cannot be made an element of the calculation, which is based upon the ages at entrance and retirement, and on the probabilities of life. It is true that if a man both enters and retires at the regulation ages, length of service may be made to stand for the true elements, but it is in that case only that the two things are identical. It is true also that there should, theoretically, be a reduction of the pension if a man has served less than 40 years, whether you proceed upon the arbitrary rule or upon the true method of calculation. But if one man has served 30 years by entering at 20 and retiring at 50, and another by entering at 30 and retiring at 60, the probabilities upon which the calculation depends are very far from being the same. In the former case he is entitled to a less pension than the full two-thirds of his salary, not because he has served only 30 years, but because he has ceased to contribute earlier, and will *probably* enjoy his pension longer, than for the normal period which formed the basis of the calculation. In the latter case, it will be because he started with the *certainty* of not being able to contribute for the full time, and had a greater chance of living to reach the age when his pension would begin. Taking the simple case of a uniform salary of \$1,000, the equitable annual premium payable from 20 to 65 to purchase an annuity of \$666.66 after that age would on the Carlisle tables at 6 per cent interest, be \$12.87. If all men then pay this deduction, the following table will shew what very different rates of the pensions they would be entitled to are obtained on a strict calculation, according as a man's term of service is reduced by his retiring before, or entering after the regulation age, and how widely both differ from the arbitrary scale of the English scheme:—

Length of service.	If entering at 20.	If retiring at 65.	English scale.
45 years,	\$666.66	\$666.66	\$666.66
40 "	355.97	463.91	666.66
35 "	202.19	317.95	583.33
30 "	120.42	214.01	500.00
25 "	73.31	140.30	416.66
20 "	44.25	88.64	333.33
15 "	25.68	52.77	250.00
10 "	13.57	27.83	166.66

20. In the above table both men are supposed to be at the same uniform salary; but in practice the man who entered at the regulation age, would commence with a small salary gradually increasing, whilst the man who entered after the regulation age, would generally commence with a high salary suited to the superior qualifications, for which he was appointed. Upon our method of a deduction increasing with the salary, the disproportion between such men would be much greater than above indicated. Supposing two men to have had each 30 years service, the one by entering at 20, at \$300 and retiring at 50, when he would have reached \$1,800, the maximum of the first class, and the other to have entered at 35, at \$1,200, the minimum of the first class and to have risen also to its maximum. The man who was superannuated too soon, would strictly be entitled to a pension of only \$164.28, and the man who entered too late, to one of \$688.97, whilst on the English scale both would receive the same allowance of \$900.

21. It would appear therefore that in treating these men of short service, it is contrary to all just principles to place them upon the same arbitrary scale, not only from a mathematical point of view, but on moral grounds also. The men who entered late did it in breach of the regulations, and with the perfect certainty of not contributing to the extent of their probable benefits. They have no claim upon Government, except in the cases where special qualifications were required, and still less upon their brother servants, with whose legitimate promotion they have interfered. The others, who became incapacitated early, entered with the same expectation as all the rest, but the chances of life were against them. It is against those chances that it is the object of the Civil Servants to secure each other, and from feelings of compassion the Government cannot relieve



itself from such men without some respectable provision. We think therefore, that these two classes of men should be treated very differently.

#### MEN WHO ENTER AFTER THE REGULATION AGE.

22. It is for the interest of the public that men should, from time to time, be appointed in middle age, and for them an exceptional rate of superannuation is provided in the English scheme. There would be a considerable loss from such men to a fund on the English scale of allowances, and as the benefit is not to the rest of the service, but to the public at large, the public should bear the whole additional cost. But upon the system of an increasing percentage of deduction, which we have proposed, the loss would be very small, as we have before explained. Upon the present scale of salaries taking 65 as the age of retirement, and money at 6 per cent, if a man were originally appointed to the minimum of the 1st class, unless he was 29 or upwards, there would be no loss arising from giving him the full retiring allowance of  $\frac{2}{3}$  of his salary; if he were appointed to a higher office at \$2,000 salary, there would be no loss unless he was upwards of 40. It is not therefore with these men that the great difficulty exists. It is with the men who may be appointed late in life to the ordinary offices, and with the ordinary chances of promotion; and it may be as well to say at once, that unless the Government is prepared to conform strictly to the provision of the Civil Service Act in this particular, it would be far better to abandon any idea of a superannuation scheme at all. If 20 is taken as the regulation age for entrance, a certain latitude may be allowed. No great loss would result if a man were 25 or even 30, and his greater utility than a mere lad, would, to some extent, compensate it. Even up to 35 or 40, some palliatives might be introduced into the scheme, either by making greater deductions or by allowing reduced benefits. But there is a limit to the practical introduction of any such provisions. After 40 the equitable deductions would be so large, or the equitable pension so insignificant, that the plan would be inoperative. The only remedy is to fix an age, beyond which no appointment in the public service can be made, except in special well-defined cases, and all appointments made at greater ages should be reported to Parliament, and justified there as provided by the Act. The following table is calculated upon the supposition of a uniform salary of \$1,000, the age of retirement being 65, and money at 6 per cent. The first column shews the equitable pension which would be earned at the several ages for entrance at the normal rate of deductions; the 2nd is the equitable rate of deduction which would be required to earn the full pension of two-thirds; and the 3rd is the fine to be paid in entrance to entitle a man to receive the full pension on payment of the normal deduction. This fine is the present value of the loss which the public will ultimately suffer from such an appointment, and we need hardly say that if that sum were placed in the estimates, and voted before such an appointment could be made, which would be but strict justice, we should not be troubled with many old men coming into the public service;

Age.	Pension.	Deduction.	Fine.
20	\$666.66	\$ 12.87	\$ 0.00
25	463.91	18.51	73.58
30	317.95	27.00	176.63
35	214.01	40.11	322.99
40	140.30	61.18	531.00
45	88.64	96.84	837.84
50	52.77	162.68	1,279.90
55	27.83	308.46	1,924.57
60	10.85	791.44	2,956.12

#### MEN WHO ARE INCAPACITATED BEFORE THE AGE OF RETIREMENT.

23. The loss arising by these men would individually be much greater than from men of the same length of service, who have entered later than the normal age; but their claims to an adequate retiring allowance are very much greater also. We do not think that in any case it should be much less than the proportion of the salary, which it is proposed to allow on retirement to men who have served the full time. We have no doubt as to the propriety of their being more liberally treated than in the English scheme, and if it were possible to provide for them in the calculation, an additional deduction should be made from the working staff. The great difficulty in their case is to find any sufficient data upon which to found a calculation. Some rough estimates, however, may be made. In England the average age when men have retired on pensions has been 57, and about 14 per cent of the whole of the pensions were granted under 50; but then it must be remembered, that of an entire staff of about 16,000, from which this average has been taken, about 10,000 are in active occupations as coast guardsmen, letter carriers, &c., who would be incapacitated from performing their duties much more easily than men in sedentary occupations; and with regard to the remainder a large number under the old Act might retire voluntarily on their full salaries much earlier than they now could even at  $\frac{2}{3}$  of it. Dr. Farr and Dr. Nieson from a very extended observation, give the proportion of an active population above 20 who are on pensions, embracing both active and sedentary occupations, and the results, which are almost identical, show that about 2½ per cent are incapacitated for work at 50 and under. But Nieson in his work on Vital Statistics, in which he divides the whole working population



into classes, shews from the experience of benefit societies, that the class of clerks are the shortest time of all upon sick allowances, whilst in point of mortality they are almost the highest. In fact, there are very few causes, except blindness, which would materially interfere with the performance of office work, which would not also reduce the length of life. From these considerations, although there are no data for exact calculation, we may infer that the men who would come on our pension list early would be few in number, and would not burden it long. Still, their allowances, however moderate, would very much exceed the value of their contributions, and they are not provided for by the calculation. On the other hand however, there are many gains which such a fund would make, the extent of which it is very difficult to estimate, but they would be considerable. (1.) Many men would enter before 20. (2.) Many would be quite willing and quite able to go on working after 65, if that age is fixed upon as the age of retirement. (3.) Men who are dismissed would very properly forfeit their contributions. (4.) It may be questionable even whether men who voluntarily retire would have any claim to have their contributions returned. In England this was a very noticeable part of the profits, amounting to about 5 per cent on the income, though we do not think that it would amount to nearly so much here. (5.) We have based the equitable percentage upon the Carlisle tables, the best to which we have access in a form available for the calculations; which give notoriously too great an expectation of life in the higher ages, as compared with later English experience, thus unduly swelling the value of all the pensions; and they are probably still less applicable to the class which is represented by our Civil Service. Messrs. Ansell and Morgan have given a table of life annuities based upon the actual experience of the pensioners of the Civil Service in England, and they are far below those founded on the Carlisle tables at all ages. From 40 upwards they average as much as 20 per cent below the Carlisle tables, and from 20 to 40 they are not quite one half. Indeed the average value of an annuity for life for men between 20 and 40 is not nearly so great by this table, as that of an annuity to a man of 60 by the Carlisle tables. This great disproportion in the lower ages shews that the same circumstances, which cause men to be pensioned off early in life, so materially reduce their expectation of life, as to render them less burdensome than men superannuated at 60; and the general inferiority at all ages indicates that the Carlisle tables are not strictly applicable to Government servants as a class. The same thing is shewn even more decidedly by Nieson's tables of the class clerks above alluded to. Any such inferiority in the expectation of life cannot be left out of account in preparing a superannuation scheme, as it would most materially affect the calculation in many ways. It would diminish the charge, both because fewer men would reach the superannuation age, and those who did reach it would enjoy their annuities for a shorter period; and it would increase the income, because it would increase the rate of promotion and the higher salaries would be contributed upon earlier in life. Without going into any exact calculations, the great difference between the Carlisle, the latest English life tables, and Nieson's tables for clerks, may be shewn from the following considerations:

	Carlisle.	English.	Nieson.
No. alive between 20 and 60.....	201,449	10,766,640	264,516
No. alive at 60 and upwards.....	54,053	2,558,277	42,273
Proportion of pensioners above 60 to 100 working and contributing men below 60.....	26.83	23.75	15.98

so that with the same working staff the English tables would shew a probable saving of 11 per cent, and Nieson's of 40 per cent upon the cost of superannuation as deduced from the Carlisle tables. (6.) If deductions are established, the exact percentage would be calculated on the average scale of promotion as already explained, but in practice we must discard fractions, and if the nearest round sums or simple fraction above the real amount were adopted, there would on the whole be a considerable gain. (7.) It would be quite legitimate, and very little felt, if, as in France, first fruits were deducted, say the first month or two months of all increases of salary on promotion, other than the annual increase for length of service.

24. Taking all these probable gains into consideration we should have little fear but what the normal portion of the salary could be given on retirement to persons who had entered at the recognized age, if the calculations were based upon 60 as the age of superannuation. It is not the few cases of men incapacitated early in life, and that whilst they were receiving low salaries, that are to be feared, but the much larger number, which, from the English experience, appear to break down about 60 or a little before that age. But if the calculations are based on 65 as the age of retirement, there undoubtedly would be a considerable loss to a fund from individuals incapacitated early in life. Of course there must be stringent rules and proper medical certificates, and a statement should be rendered to Parliament of all men placed on the pension list below the recognized age, with the reasons; and to insure that no one was placed in the public service who was likely to be soon unfit for work, no one should have a claim until he had been at least some years in the service (say perhaps ten), but he should after any less time receive only a gratuity, and have his contributions returned to him with interest.

#### AGES OF ENTRANCE AND RETIREMENT AND RATE OF INTEREST.

25. These two questions form the basis of any calculations upon superannuation. We have taken the rate of interest at 6 per cent, because this is apparently the average rate at which Government



loans are effected. If a lower rate were determined upon, it would make no difference in the total amount of the charge for superannuation, but lowering the rate of interest would increase the equitable percentage to be deducted from the Civil servants.

26. English experience both in the Civil Service and in benefit societies points to 65 as the age when the great majority of men become unfit for active employment. As a means of testing the question in this country we have given in our former report a list of the men in the Departments between 60 and 65, and above 65, from which Government can judge, whether on the average it would be for the advantage of the Public Service that such men should make room for younger ones.

### THE MEN NOW IN THE SERVICE.

27. If the method of treating the doubtful points above referred to were decided upon, the calculations would shew what deductions from salaries would be sufficient to bear the cost of the superannuation of all men hereafter to enter the service; but the present staff must necessarily be otherwise provided for. If the scheme is made applicable only to future appointments, the benefit to be derived from it will be postponed for 40 years. If the existing servants are only to receive what they would be legitimately entitled to from their contributions, the deductions from the elder men would be so large as to make it impossible to enforce them, or the allowances so small as to render the scheme inoperative. If they are placed upon the same footing as those hereafter to be appointed, it can only be done at a heavy cost. If there is a compromise, and the present staff receive allowances less than those promised in future, though larger than their own contributions would entitle them to, or there should be a similar compromise as to the rate of deductions from them, this difficulty arises,—a varying compromise would have to be made for every age, length of service and salary; because there is a regular gradation from the men who will be superannuated at once, who are strictly entitled to nothing, to those who were appointed last year, whose position is barely distinguishable from those who will enter the service upon the new system. It appears to us, that if there is to be a superannuation allowance at all, the present staff must be subject to the same rules as future appointments. They could not of course be in any way made chargeable against a fund, but if no account is kept as of a fund, the difficulty may not be too formidable to be faced.

28. Let us refer again to the progress of such a fund, supposed to be applicable only to men hereafter to enter the service. It would go on accumulating almost without any charge upon it for 40 years, when the pensions would begin to become payable, and would gradually increase in amount till about 70 years from the present time, when the charge would have become a maximum, and thenceforward, if the numbers of the whole service, and the salaries and other regulations remained as they are now, it would remain stationary. The annual contributions would pay about  $\frac{1}{3}$  of the annual pensions, and the interest on the fund would pay the remaining  $\frac{2}{3}$ . It is evident, therefore, that if the present staff were similarly constituted as to age and salary to what the staff 70 years hence ought to be under the operation of the Civil Service Act, we should be exactly in the same position as they would be in 1939—that is, the contributions would meet  $\frac{1}{3}$  of the annual charge, and a fund must be created to raise the other  $\frac{2}{3}$ , or Government would have to provide the two thirds from current revenue. In one or other of these ways, if the superannuation allowances are to be based upon contributions, the Government must bear the cost of its present servants not having contributed in former years, or else the benefit of the system must be postponed for 40 years. But if there is to be no fund, by establishing the system at once, Government is placing itself, both as to benefits and annual cash outlay, in exactly the same position as it would be 40 years hence, if the system were only made applicable to new appointments. It is argued by many that it is better to grant retiring allowances on fixed rules without deductions, in which case there is no reason why the existing staff should be treated differently from new appointments; and the deductions, whether they cover the whole of the pension or only a part of it, may be looked upon as an arrangement to lighten the cost to the country, and would not materially alter the case.

### PROBABLE COST OF SUCH A MEASURE.

29. A very fair estimate of the probable cost may be made as follows. From the returns we have received, where both ages and salaries are given, the Civil Service of the Dominion may be thus classified.

Age.	Departments.		Whole Civil Service.	
	No.	Average Salary.	No.	Average Salary.
Under 20	13	\$528	29	\$445
20—25	26	588	89	492
25—30	29	897	111	697
30—35	34	957	162	738
35—40	30	997	144	841
40—45	26	1,275	149	774
45—50	46	1,079	207	849
50—55	13	1,262	160	718



55—60	23	1,558	152	851
60—65	8	1,590	97	700
65—70	5	1,816	65	952
Above 70	3	1,416	43	856
	256		4,090	

N. B.—In the list of the entire staff as given above and the calculation of the probable cost based thereon, we have not included the outside staff under the Department of Public Works; both because we have very imperfect returns of their ages, and because it includes so many persons as Lock-keepers and Railway employes, who can hardly be considered as permanently appointed.

30. If then we suppose all the men in the Departments above 65 to be superannuated on  $\frac{2}{3}$  of their salaries, that would be the total amount of pensions in 1870. In 1875, the survivors of the men now between 60 and 65, at  $\frac{2}{3}$  of \$1,628, which may be taken as the average maximum salary, together with the survivors of the men already pensioned, would give the amount of the pension list in that year. Similarly, the survivors of the men now between 55 and 60, at  $\frac{2}{3}$  of the same average maximum salary, with the survivors of those already pensioned, would constitute the pension list of 1880. Calculating in this manner from 5 years to 5 years, the value of the pensions in the Departments alone would, according to the latest English Life tables, be as follows:—

PROBABLE VALUE OF PENSIONS IN

AGE NOW.	1870.	1875.	1880.	1885.	1890.	1895.	1900.	1905.
	\$	\$	\$	\$	\$	\$	\$	\$
70—75.....	2,833	1,677	871	402	79	12	18	1
65—70.....	6,053	4,385	2,718	1,345	495	122	1	1
60—65.....		6,968	5,048	3,128	1,552	570	141	21
55—60.....			17,130	12,408	7,691	3,816	1,400	347
50—55.....				8,598	6,228	3,860	1,916	703
45—50.....					27,743	20,097	12,459	6,181
40—45.....						14,545	10,537	6,531
35—40.....							15,750	11,410
30—35.....								16,888
Total.....	8,886	13,030	25,767	25,881	43,788	43,022	42,222	42,082

31. The sudden rise of the pensions in 1890, is the consequence of the large excess of our staff in the middle ages. Beyond the last date given, the pensions would still go on diminishing to about \$38,000 and \$35,000, if no new men had been in the meantime appointed above the regulation age for entrance; but as this will certainly not be the case, the pensions to the new men would be beginning to tell, and the total amount would probably not fall below \$40,000, which is a little more than 14 per cent on the salaries of the working staff. In England in 1856, the total salaries, other than judicial salaries, were £4,826,865, and the total pensions £676,555, or also about 14 per cent.

32. These are formidable figures, but it must be remembered, that there would be important savings, which cannot be represented in the calculation. Many men are practically superannuated on their full salary, and no addition would be made to the staff on their retirement, and the full salary should in all such cases be deducted from the totals as above given. In other cases, although some promotions might take place, and an extra junior might be appointed, these additions would not absorb all the gain from striking off the superannuated officer, and all the saving in the cost of the working staff would from a deduction from the cost of pensions. Such savings can only be roughly estimated, but taking the 8 men above 65 now on the Departmental staff, we estimate that against the \$8,886, set down for their pensions in 1870, fully \$3,500 or \$4,000, would be saved in the salaries of the working staff. As a further illustration of the saving which would practically be made upon the normal pensions, we may state that we are informed by Mr. Duncombe, the Collector at Quebec, that there are 18 officers at that Port ranging from 60 to 80, who might advantageously be placed on the retired list. Their present salaries amount to \$12,065 and their pensions at  $\frac{2}{3}$  would therefore be \$8,043; but their places, he states, might be filled up 6 new appointments with salaries not exceeding in the aggregate \$3000; so that instead of the pensions really costing anything, the salaries and pensions together would not come to the amount now paid for salaries alone. The reduction from this cause, however, would constantly diminish, after a regular superannuation system had been established. But there is another probable reduction which would remain permanent, viz: that many men would be quite competent and willing to go on working after 65. Then as to deductions, on the present staff, at the approximate rates which we have given to earn the full pension of  $\frac{2}{3}$  of the salary, they would amount to \$11,195 now, and they would not materially vary in future years, excepting that, as the total number of employes increased, the addition to the deductions would come into operation about 40 years before the increase was felt in the pensions.

33. If, instead of the Departments alone, we take the whole Service, or as much of it as we have perfect returns for, the probable cost would be as given below; and taking the deductions at the same rates as for the Departments, they would amount to \$32,458.

Pensions 1870.....	\$ 65,781	Pensions 1890.....	\$141,623
" 1875.....	87,443	" 1895.....	129,818
" 1880.....	114,025	" 1900.....	113,945
" 1885.....	126,373	" 1905.....	96,229

#### METHOD OF PROVIDING FOR THE EXPENDITURE.

34. The necessary expenditure might be provided for in several ways. The allowances, payable under certain rules laid down, might be made a charge upon Consolidated Fund. But the annual cost would certainly be variable, and however accurately the calculations might be made upon the best data obtainable, exceptional cases might arise, and in a limited service the actual charge might be very different from that indicated by the average probabilities. If the Civil Servants provided for their own allowances, such an arrangement would not be unjust, but we do not think that Parliament would be willing to sanction an expenditure of which the limit could not be certainly known.

35. Each case of superannuation might be separately voted by the Legislature. If placed annually in the estimates, there would be no security that after the Civil Servants had been contributing for years, Parliament might not change its policy and refuse to grant any further superannuations. As to those who had already been placed upon the pension list, we do not think that there would be much danger of a Canadian Parliament stopping the further payments; but such a thing is possible, and we cannot conceive a case of greater hardship than that of a man who had resigned his situation upon the faith of an annual allowance, finding himself in his old age deprived of all means of support, when his former services were forgotten, and when those who had known him during the period of his active work, were probably no longer in a position to advocate his claims. The public servants, especially if they contribute themselves, ought to be exposed to no such risk.

36. A limited annual sum, either including the receipts from deductions, or so much over and above all such receipts, might be appropriated for superannuations, and made a charge upon Consolidated Fund. We know that theoretically this would be as much under the control of Parliament as an annual appropriation; but it is a very different thing to repeal an existing appropriation to which the faith of the country is pledged, from merely omitting to vote the money to carry the pledge into effect. Such a sum might be fixed at first considerably below what would be required upon the calculated probabilities of all men becoming chargeable against it after a certain age, and it might under exceptional circumstances be supplemented by annual votes, or as the extent of the service increased, permanent additions might be made to it. When any claim for superannuation arose, if there were funds available, Government could grant it without reference to Parliament beforehand; if not, the man would have to wait until some of the existing pensioners died off and left the necessary amount at the disposal of Government, or a special vote must be submitted to Parliament. Amongst the several claimants, those who were most an incumbrance on the public service would be selected. The effect would be that Government would have the power, which is now so much wanted, of disencumbering itself from those who are really useless; whilst a man who was past the age at which he might expect a retiring allowance, if still capable of useful work, would be kept on in office. The Government would gain what is so essential to its efficient organization, and the old servant who was retained at his work could hardly complain, as he would receive his whole salary, instead of a reduced allowance; and even more than formerly, as, if he were not placed on the retired list at the age on which the calculations were based, it would be but fair that no more deductions should be exacted from him. The principal difficulty which we see in such an arrangement would be, that a Government, with a limited sum at its disposal, might wish to apply it to a greater number of persons by a reduced allowance to each. To guard against this a minimum proportion of the salary according to age or other test should be fixed by the Act, below which Government should not be authorized to compel an old servant to accept retirement.

37. If the sum made an annual charge on Consolidated Fund were taken at about half of what would provide for all superannuations after a certain age, and before that age for sufficient reason assigned, it would at any rate meet the requirements for the first few years, and although it might not ultimately be all that could be wished for, it would at least be a very great improvement upon our present position, and it might be supplemented from time to time by additional votes.

#### COMBINATION OF PENSIONS WITH LIFE INSURANCE.

38. Since the above report was prepared in substance, a memorandum from Mr. Harvey, the Statistical Clerk in the Audit Office, has been referred to us by the Minister of Finance. Mr. Harvey calls attention to the fact that the rates of life insurance charged by the ordinary companies, founded as they are upon a low rate of interest, and with a loading to cover expenses of management and profits, are much in excess of what Government could afford to insure at, and that the difference would go far towards providing for superannuation. He gives a comparison of the rates charged by the Equitable, the largest American Office doing business in Canada, and



those which the Government could afford to insure at, taking the experience of the English Actuaries as the basis, and 6 per cent as the rate of interest. The comparison is as follows, to insure \$1,000 :—

Age.	Equitable.	Actuaries 6 per cent.
20	19.89	10.54
30	22.70	13.93
40	31.30	19.97
50	47.18	31.51
60	77.63	53.00

39. Two preliminary points suggest themselves for consideration upon this scheme. (1) Is life insurance a business which Government can safely enter into? And (2) Is it just that Government should compel all its servants to insure their lives; for unless the insurance were general, and it could only be so if compulsory, it is evident that the scheme would be to a great extent inoperative.

40. Upon the first of these points, we should be inclined to say that insurance generally would not be a safe business for Government to engage in; but with its own servants, where it now exacts certificates of health upon appointment, we think it might safely be done to a limited extent, and as part of a general superannuation scheme. There would moreover be the collateral advantage, that the Government would thus hold in its hands a certain sum, or contingent interest in a sum, from all its employes, as a security for the faithful discharge of their duties. A double system of life insurance and superannuation allowances would also equalize the chances of both, and would to a great extent eliminate any inapplicability of the recognized tables to the duration of life in Canada. Thus the Carlisle tables in all the middle ages agree very closely with the latest English experience, but they notoriously give rather too great a longevity in the higher ages. If then a superannuation scheme is founded upon them, the present value of the ultimate pension is stated somewhat too high, and the deductions to purchase it are too high also. But for the same reason, the present value of a sum to be paid on death is stated somewhat too low, and the rates of assurance are too low also. If both are included in the same calculation, these small difference tend to balance each other.

41. Upon the other point, it may be argued that although all persons, mainly depending upon a monthly salary, ought in prudence to insure their lives, yet Government, which has a decided interest in being able to relieve itself from worn out servants, has no direct interest in the ultimate provision for their families; but even from this point of view the two subjects are somewhat connected, for one of the reasons why a superannuation allowance must be kept up to a respectable amount is, as we have before argued, because the retired clerk has not only to live upon it, but to keep up his life insurance. Taken alone we doubt whether Government should lay down a rule to be enforced upon all on a subject which is strictly a question of private interest; but taken in connection with a superannuation scheme, and with leaving a definite security in the hands of Government, we think that it would be quite legitimate to require a life insurance from all.

42. Upon full consideration of the whole question, we entertain such a favorable view of the proposition, that we have entered into detailed calculations as to its effect. The first point to be decided is as to the amount of life assurance to be required, and we have considered a sum equal to two years salary a reasonable amount. We have assumed that a man entering the service at 20, with a salary of \$300, should pay during the first year a premium which would insure \$600 payable at his death, and that the next year, when his salary is \$350, he should pay such an additional premium as would secure \$100 more at his death. The amount he would pay annually, would go on increasing, both because the sum assured increases, and because he is advancing in years, and at all periods of his life, he would be insured for twice the salary he was then enjoying. In the former part of our report, we have assumed  $\frac{2}{3}$  of the salary as a fair rate of superannuation, but we have expressed an opinion, that as Government is much more interested in the matter than the employes themselves, and will make a considerable saving in other ways from establishment of superannuation allowances, the cost of the system should be divided between them, and the deductions from salaries should only be calculated to meet a superannuation allowance of  $\frac{1}{3}$  of the final salary, and we have made our present calculations on this basis. Mr. Harvey has made his comparison between the Equitable and the Actuaries tables. Instead of the latter, we have taken the Carlisle tables, both because our former results were based upon them, and because they are the best for which we have the necessary apparatus for calculation; the difference in the rates is very trifling. The rates of the Equitable, quoted by Mr. Harvey, include a share of the profits to the insurer, and thus introduce an unnecessary complication. We have therefore taken for the purpose of comparison the rates of the Canada Life Insurance Company, for insurance without profits, which average  $12\frac{1}{2}$  below the Equitable, but even in that case, the margin of profit is very large, as may be seen from the following table :—

Age.	PREMIUM PER CENT.		PREMIUM TO INSURE TWICE SALARY.	
	Carlisle 6 per cent.	Canada Life.	Carlisle.	Canada Life.
20	1.08	1.54	\$ 6.48	\$ 9.24
30	1.47	2.07	19.32	27.45
40	2.03	2.83	36.82	51.94
50	2.94	4.09	61.47	86.21
60	5.09	6.82	101.61	141.02

43. We have calculated these rates from year to year upon the assumption that a man should enter at 20 with a salary of \$300, his salary increasing \$50 per annum till he reaches the maximum of a Chief Clerk about 60. This is the same scale on which we formerly calculated the rates of deduction to earn a retiring allowance of  $\frac{2}{3}$  of the salary. If now we take the excess of the rates of insurance in the Canada Life Insurance Company, over what Government could afford to do it for by the Carlisle tables at 6 per cent and compare this with the deductions necessary to earn  $\frac{1}{2}$  of the salary as a retiring allowance, it appears that at all ages up to 35 the excess of premium would do more than cover the deduction for pension, leaving a profit upon the double transaction. Beyond 35 the deduction for pension increases faster than the excess of premiums, causing a loss on the two transactions up to 65, when no further deduction for pension is required, and the whole excess of premiums is a profit. Upon the whole, the result may be thus stated. Every man entering at 20 and paying annually the premiums charged by the Canada Life to insure twice his final salary at death, and who will receive  $\frac{1}{2}$  of such salary at 65 as a retiring allowance, will, if he rises at the rate of \$50 a year to the maximum of a Chief Clerk, entail an average annual loss on Government of \$10.07. If he only rises to the maximum of the 1st class a loss of \$1.66. If he only rises to the maximum of the 2nd class a gain of 2.22. If he only rises to the maximum of the 3rd class a gain of 6.48. As the Departments as at present constituted consist of 36 Chief Clerks and Officers, 27 first class clerks and 213 second class and below that rank, the chances are that on the service so constituted there would on the whole be an annual gain of \$65.52, even if none of the juniors stopped rising before the maximum of the 2nd class, which many of them certainly would do.

44. Should such a system as above recommended be introduced, it obviously could not be made compulsory upon men above a certain age now in the service, who have probably already made arrangements for life insurance otherwise. We think however that it might be made compulsory on those under a certain age, (say 25 or 30) and above that optional; and if any person did not elect to insure, the deductions for pensions might still be enforced.

All which is respectfully submitted.

JOHN LANGTON,  
Chairman.

December 4th, 1869.









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